

# Organisational structure of geodrill limited



## **Introduction**

Geodrill Limited is an exploration drilling contractor, which was incorporated in the Isle of Man in June 1998 and centers its attention on the mining industry in West Africa. It operates in 3 West African countries, which are Burkina Faso, Ghana and the Cote D'Ivoire through an entirely owned subsidiary, Geodrill Ghana Limited. The Head Office is located in Accra, Ghana and manages operations throughout the West African region.

However, there are only two operating entities, Geodrill Ghana Limited and Geodrill CI SARL in Cote D'Ivoire . Geodrill Ltd (Isle of Man) operates contracts in Burkina Faso. The two entities are whole owned subsidiaries of Geodrill Ltd (Isle of Man).

Geodrill Ltd. has 2 issued shares owned by Blue Croft Limited and Red Croft Limited. All drill rigs were bought new except ore 650/1 which was bought second hand in the year 2000.

Geodrill started operations in Ghana in 1998 with one UDR 900 multi-purpose drill rig and in 1999 added another.

At the end of December 1999, Geodrill owned 10 UDR multi-purpose Drill rigs all with boosters, auxiliary compressors, modern fleet of MAN trucks, track support vehicles and light vehicles.

Geodrill also owns three core only Sandvik DE 710 crawler mounted drill rigs and two Auztex Air core truck mounted rigs. Current expansion in 2010 includes two additional rigs bringing total fleet to seventeen.

It is envisaged that by the end of 2010 the fleet size in terms of drill rigs will be twenty. The rigs to be added in 2010, while still of the UDR make (have recently changed to Sandvik) depart from existing strategy by being specialized drill rigs. Two of the rigs will offer RAB services while the other offer Air Core. The entire maintenance operations of Geodrill Limited is carried out at Anwian Kwanta a suburb of Kumasi in the Ashanti Region of Ghana. It is based on a 10 acre land which has a modern workshop, offices and accommodation for both expatriates and nationals. The workshop strictly adheres to world class safety standards. Our health and safety and environmental program was designed by Tracmin to at a minimum comply with Australian safety standards.

#### Ownership and Directors

Geodrill Limited has a Trust set up by Dave Harper, currently the Managing Director of the group. He is also the Chairman and CEO of Geodrill Ghana Limited, the operating entity in West Africa. The Trust is held by the City Trust firm based in Douglas, the Isle of Man, on behalf of the Harper Family Trust of Perth, Australia. It has 2 issued shares. The other director of Geodrill Ghana Limited is Terry Burling who is also the Operations Manager of the firm.

Figure 1: Organisational Structure of Geodrill[1]

#### The Organisational Structure

#### Management

Dave Harper is the Managing Director and CEO. He has about 30 years of experience in the drilling industry having worked both in Australia and West Africa. He started working in Ghana in 1991 as General Manager of SMS, an exploration drilling firm. Mr. Harper, a driller by profession, resigned in 1996 and set up Geodrill 2 years later. The CEO is directly responsible for project flow and contracting with clients, client relations, invoicing and acquisition of major equipment. He also leads in setting corporate and business strategy. He is assisted by 2 departmental managers.

Terry Burling is the Operations Manager with 20 years of experience in the drilling industry. He previously worked with SMS in New Zealand, Australia, Papua New Guinea, Indonesia and in Ghana. Fortunately for the company, Terry Burling is an expert in both the mechanical and exploration aspects of the profession. His skills span drilling, mechanical engineering, electrical engineering and fabrication.

Greg Conroy is the F&A Manager. He has worked in that capacity at several exploration drilling and mining firms including SMS (Ghana), Equigold CI SARL (Ivory Coast). He has over 20 years of experience in the industry. Conroy started working with the company in December 2008, having taken over from a Ghanaian who had been in the position since Geodrill was established and also previously worked with SMS. The F&A Manager is directly responsible for managing relationships with all external stakeholders except clients.

The Structure of the Firm

Geodrill has about 120 staff organized into 2 departments, Operations and Administration. There are 4 sections under Operations: Exploration, Maintenance, Stores and HSE.

Exploration performs the drilling required by clients; the core activity of the company. The Exploration workers are organized in crews of 4 per rig per shift of 12 hours, therefore 8 per workday. A Site Supervisor manages all aspects of the project being undertaken including a cash expense budget, accommodation, liaises with the client's representation usually a geologist, and supervises the crew. If it's a large project with 2 or more rigs present, a store is set-up and stocked with consumables. In this case too there may be one or more supervisor. The Exploration staff typically constitutes about 80% of the staff strength.

Maintenance provides engineering back up services for repairs and maintenance. This section also fabricates a lot of equipment including heavy duty, pneumatic vehicles. They work out of one of the most advanced workshops in West Africa and drive out to offer on-site support in their modified and well-equipped Land Cruiser pick-ups.

The Store section manages the stock of consumables, fuel and spare parts. Though many firms in the industry treat stock as finance and accounting function because of its effect on profitability, Geodrill has placed its Store as Operations to better ensure closer integration with the core functions of the business. Decisions on purchases are made with paramount regard to the necessity of the item for project execution rather than cost or any other

consideration. Requests routinely originate from the Supervisors and are validated by the Operations Manager.

The Health, Safety and Environment section oversees the design, implementation, monitoring and evaluation of Health, Safety and Environment standards that, at a minimum, are required to conform to Australian mandated standards. The Australian standard is regarded as the most stringent for drilling firms globally and much higher than what is required in Ghana. Setting that as the minimum standard is a purely discretionary decision by Geodrill's Chief Executive Officer.

The Administration department is made up of Accounts, Human Resource, Information Technology and Logistics.

The Accounts section is responsible for all financial reporting including management reports and statutory reports. Geodrill tracks income by drill rig and by project. Major direct expenses such as fuel are tracked by drill rig and project. The Accounts section also manage the monthly cash budget.

Human Resource section coordinates with departmental managers in the recruitment process, the setting of salaries and promotions. Salary levels are determined according to the hierarchy (organizational structure) and each band has 3 sub-levels. Junior employees earn a basic salary and overtime for work done beyond 8 hours in a weekday. For senior employees, a fixed salary that consolidates both a base pay and overtime is determined and their pay does not vary by the hours done. The section prepares the payroll and executes payments.

The Logistics section act as a go-between with Stores, and the rest of the company to ensure that procurements, imports and exports and immigration requirements for expatriate workers are smoothly executed.

## **Services**

Geodrill provides Reverse Circulation and Core Drilling services. The object of all prospective drilling is to get samples from different depths below the surface. The two basic methods are cuttings recovery and core recovery. Reverse circulation drilling falls in the first category and diamond core drilling in the second.

### Reverse Circulation

Reverse Circulation is the method of choice for obtaining consistently high quality rock chip samples with speed and efficiency. Geodrill provides reverse circulation drilling using the latest Face Sampling hammers and equipment drilling holes with 140mm diameter to depths of between 50 – 400 meters.

In terms of pricing, this drilling methodology is positioned in the middle. It is more expensive than RAB and Air Core drilling but less costly than diamond drilling. It is the most commonly used method. It collects samples from depth by pulverizing the rock which is then blown up through an inner tube and collected in a sample bag.

### Diamond Core Drilling

This technique is used to drill to about 1500m deep. A diamond-impregnated drill bit cuts a core of rock hence the name Diamond core. The core sample

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is removed at intervals and catalogued. This is a much more expensive drilling method.

### Directional Drilling

Geodrill provides the Deep Directional drilling using Down Hole Motor and Wedging; to control deviation so target is achieved, to intersect targets below inaccessible locations, to alter course of a drill hole to intersect target and to allow multiple target intersections by deviating branch holes from a parent hole.

Two other types of drilling, common in the industry but not previously offered by Geodrill, are RAB and Air core drilling. These are most ideal for shallow depths, are speedier and cheaper for clients.

## **THE EXPLORATION INDUSTRY IN WEST AFRICA**

### Market and Industry

Geodrill's current client list includes Newmount Ghana Gold, Golden Star Resources, Keegam Resources, Perseus Mining, Azumah Resources, Castle Minerals, Lihir Equigold, in Cote d'Ivoire, Ampella Mining and Gryphon Minerals both in Burkina Faso.

Geodrill is currently the market leader in Ghana with about 35% of the market share. In 2009, 50% operating capacity in Ghana, 20% in Cote d'Ivoire and 30% in Burkina Faso. Geodrill hopes to increase operations in Burkina Faso in the near future as that industry is less saturated than Ghana in terms of competition and there are a lot of contracts readily available.



For 2010, the order book is full including 2 new rigs on order. Geodrill is still receiving invitations to tender on contracts all over West Africa in Gold and base metals.

Geodrill's competitors in Ghana are Boart Longyear, AMS exploration, Pontil Minerix, Drillmasters and Burwash.

In Cote d'Ivoire, their competitors are Boart Longyear CI, Ore-ex and Drill ex.

In Burkina Faso, its Boart Longyear BR and West Africa Drilling Services.

Current industry challenges include price competitiveness, and the labour market beginning to tighten.

Opportunities include gold and commodities boom, an influx of active exploration companies into West Africa and improving political stability in the region.

The mining, energy and infrastructure markets are expected to see the highest near to medium term growth in the sub Saharan African region.

In general, mining companies with a higher percentage of long term renewable contracts are viewed as being lower risk and Geodrill prefers to deal with such clients.

### Analysis of the Industry

There is no substitute for exploration drilling services in the mining industry.

The exploration process progresses from initial studies of the geological structure of an area, a history of mining and other indicators of prospective

potential. However, actual samples must always be collected both from the surface and at depth to determine the actual presence of mineral. This collection of samples from depth can only be done by drilling down into the ground.

The threat of new entrants probably offers competitive pressure to existing firms in the West African market. The mining industry is made up of many small firms but dominated by a few very large firms. Exploration drilling, though it has a tangible end product in the form of samples, is really a service and depends as much on relationships as on the quality of the sample. It is a capital-intensive business but any entity that can get access to about \$3m in start-up capital can start with a second hand rig, some spare parts and consumables. The exploration drilling firms usually operate under the umbrella of the client and so are indirectly regulated hence regulatory issues will not hinder a start-up.

The exploration drilling business is characterised by short drill programmes (contract duration of 3 months to 1 year). Each drill programme can be properly viewed as a real option, and determines the next step for the client. The level of activity is driven by the ease of fundraising on the capital markets and the price of gold as it determines the value of any find. The drilling service is homogenous in nature, hardly differentiated except by the speed and efficiency of execution and the safety record of the drilling firm. There is not much collaboration among the firms.

Suppliers of major inputs such as drilling consumables are quite powerful when the industry is booming. When the price of gold falls or the capital

markets are not doing well, there is usually an excess of serviceable second hand equipment available. This dilutes the power of the suppliers somewhat. The sources of consumables are many hence the suppliers here are much less powerful than the suppliers of equipment.

There are two types of clients: Mining firms and exploration firms. The mining firms have operating mines and earn revenue from selling the gold that they mine. The exploration firms hold concessions and carry out drill programs to determine their potential. Exploration firms do not earn operating revenues; they earn a return eventually by selling the concession if it is proven to have the potential to yield some gold. Therefore, exploration firms finance their drill programs by raising equity on the capital markets.

The clients are very powerful and price sensitive. Drill programs tend to be one of the largest costs of the client. For both types of clients, it determines the life and value of the business.

#### Accounting Policies

Drill rigs undergo major rebuilds to extend their life span every 3 - 5 years. The cost is capitalized.

Depreciation rates are 10% for drill rigs, 20% as plant and equipment, 20% on motor vehicles, 20% on furniture and fittings and 5% on land and buildings.

Currency of record is the US dollar. Audited financial statements are submitted to the internal revenue service and taxes are paid in US dollars.

Geodrill is permitted by the Minerals Commission and Bank of Ghana to receive at least 50% and Bank of Ghana to receive at least 50% of its drilling income in US dollars.

Financial year ends on 31st December.

### Organisation Strategy

From inception, management decided it did not want a Worker's Union. Management instead formed an informal workers committee which is made up of senior employees and who are nationals for that matter. Management then acts as a union and seeks to ensure the general welfare of workers in consultation with the workers committee. This is itself is unique in an industry where unions are common.

2. Geodrill operates only in West Africa whereas its key competitors operates globally. From Ghana the chairman who also doubles as the chief executive officer oversees everything. This gives Geodrill the advantage to follow the market more closely and adopt quickly. For its competitors, there might be a general manager heading a particular region who will lack final authority on decision making.

3. Geodrill adheres to a strict healthy, safety and environment policy and as much as possible used brand new equipment which are serviced regularly and kept in top shape by the operations department from its workshop which is fitted out with the most advanced equipment needed. Competitors often deploy other rigs that have been in service in other parts of the globe and

this gives Geodrill an edge over competitors when it comes to contract execution.

4. Geodrill has more nationals in their top hierarchy than its competitors. Locals are found in management positions usually reserved for expatriates among their competitors. This enables management to keep the wage bill lower than that of their competitors because nationals severally earn lower than expatriates while at the same time motivating nationals to give off their best because they know the top positions are not kept for only expatriates.

5. Geodrill pays higher than market rates and keeps job content interesting so as to attract the best men available and also maintain them. To lay off full time permanent employees however, is difficult under the labour laws of Ghana and other West African states hence Geodrill keeps 80% of nationals on 2 year contracts renewable so far as the company has contracts to support number of staff. If rigs become idle then the workers on that rig can be laid off with a month's salary in lieu of notice and are recalled when a contract is secured for that rig.